LICENSING OF IP
EFFECT ON RIGHT TO BRING OR PARTICIPATE IN A SUIT

IP SECTION LICENSING COMMITTEE
STATE BAR OF CALIFORNIA
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Outline

- Patents
- Copyrights
- Trademarks

Patent Ownership

- 35 U.S.C. § 261
  - Subject to the provisions of this title, patents shall have the attributes of personal property

Patent Ownership *cont'd*

- Presumptive Owner: the individual inventor(s)
  - 35 U.S.C. § 101

    Whoever invents . . . may obtain a patent therefor

Patent Ownership *cont'd*

- In the case of a joint invention, each inventor automatically acquires an undivided ownership in the entire patent
  - 35 U.S.C. § 262
    - In the absence of any agreement to the contrary, each of the joint owners of a patent may make, use, offer to sell, or sell the patented invention . . . Without the consent of and without accounting to the other owners.

Patent Ownership *cont'd*

- Disputes in ownership between an employer and an employee
  - Inventorship will determine ownership, unless the employee is under some duty to assign the patent rights to the employer

Patent Ownership *cont'd*

- "Shopright" Doctrine
  - Applies where an employee's invention is not within his assigned duties or where there is no clear, enforceable contractual entitlement, *and*
  - Discovery is made at least in part by the employee during the hours of employment or with the use of the employer's property
  - Provides employer with an irrevocable nonexclusive license to practice the invention

Patent Ownership *cont'd*

- "Shopright" Doctrine *cont'd*
  - California Labor Code § 2870

    (a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information

“Shopright” Doctrine *cont’d*

- “Shopright” Doctrine *cont’d*

  California Labor Code § 2870

  - Except for those inventions that either:

    (1) Relate at the time of conception or reduction to practice of the invention to the employer’s business, or actual or demonstrably anticipated research or development of the employer; or

    (2) Result from any work performed by the employee for the employer

“Shopright” Doctrine *cont’d*

- “Shopright” Doctrine *cont’d*
  - California Labor Code § 2870

    (b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from (a), the provision is against the public policy of this state and is unenforceable

Patent Ownership *cont'd*

- Mandatory Disclosure of Inventions
  - California Labor Code § 2871

    . . . Nothing in this article shall be construed to forbid or restrict the right of an employer to provide in contracts of employment for disclosure, provided [1] that the disclosure be received in confidence, of all of the employee's inventions made solely or jointly with others during the term of his or her employment, [2] a review process by the employer to determine such issues as may arise . . .

Patent Ownership *cont'd*

- Right to bring suit for patent infringement
  - 35 U.S.C. §281
    - "[a] patentee shall have remedy by civil action for infringement of his patent."

Patent Assignments

- 35 U.S.C. § 261
  - Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing.

- State law governs contract obligations and transfers of property rights

Patent Assignments *cont'd*

- Failure to Timely Record
  - 35 U.S.C. § 261
    - An assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent and Trademark Office within three months from its date or prior to the date of such subsequent purchase or mortgage.

Patent Assignments *cont'd*

- Right to bring suit for patent infringement
  - 35 U.S.C. §100(d)
    - The term "patentee" comprises" not only the patentee to whom the patent was issued but also succesors in title to the patentee."
  - Assignment must expressly provide for right to bring suit for past infringement, if that right is to be transferred.

Patent Licenses

- *Gamco v. MGI*
  - The original owner of the patent-in-suit was Oasis.
  - During the period of its ownership, Oasis granted a nonexclusive sublicense to SDG.
  - Oasis subsequently assigned all right, title, and interest in the ‘035 patent, including its interest in the sublicense, to Gamco.

Patent Licenses *cont'd*

- *Gamco v. MGI* *cont'd*
  - Gamco then sold the '035 patent to IGT. However, unlike Oasis, Gamco retained its interest in the SDG sublicense.
  - Furthermore, as evidenced by the sales agreement between Gamco and IGT and particularly by a modification to the agreement, Gamco became an (1) exclusive licensee (2) with all substantial rights under the patent in the territory of the NYL.*

Patent Licenses

- 35 U.S.C. § 261
  - The applicant, patentee, or his assigns or legal representatives may . . . grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States

Patent Licenses *cont'd*

- Right to bring infringement action
  - The holder of a **nonexclusive** or bare license does not have standing to bring suit
    - "A holder of such a nonexclusive license suffers no legal injury from infringement and, thus, has no standing to bring suit **or even join in a suit with the patentee**." *Ortho Pharmaceutical Corp. v. Genetics Institute, Inc*., 52 F.3d 1026, 1031 (Fed. Cir. 1995)

Patent Licenses *cont'd*

- Right to bring infringement action *cont'd*
  - **<u>Exclusive License</u>**
    - "an exclusive license is 'a license to practice the invention… accompanied by the patent owner's promise that others shall be excluded from practicing it within the field of use wherein the licensee is given leave.'" (*Textile Productions, Inc. v. Mead Corporation*, 134 F.3d 1481, 1484 (Fed. Cir. 1998) (quoting from *Western Elec. Co.,* 42 F.2d at 118).
    - The proprietary rights granted by any patent are [therefore] the rights to exclude others from making using or selling the invention in the United States." *Ortho Pharmaceutical, Ortho Pharmaceutical Corp. v. Genetics Institute, Inc.,* 52 F.3d 1026, 1032 (Fed. Cir. 1995)) .

Patent Licenses *cont'd*

- Right to bring infringement action *cont'd*
  - A holder of an exclusive license, who **does not have all substantial rights**, has standing to bring a patent infringement action, but **must join the patent owner**.

Patent Licenses *cont'd*

- Right to bring infringement action *cont'd*
  - Fed. R. Civ. P. 19(a)(1) provides that an entity that is otherwise subject to service of process and whose joinder will not deprive the Court of its subject matter jurisdiction shall be joined as a party if, in that entity's absence, complete relief cannot be accorded among those already parties. If an entity has not been so joined, the court shall order that the entity be made a party.

Patent Licenses *cont'd*

- Right to bring infringement action *cont'd*
  - A holder of an exclusive license, who **has all substantial rights**, has standing to bring a patent infringement action **in its own name.** (*Waterman v. Mackenzie,* 138 U.S. 252, 255 (1891). *Fieldturf, Inc. v. Southwest Recreational Industries*, 357 F.3d 1266, 1268 (Fed. Cir. 2004); *Paradise Creations, Inc. v. UV Sales, Inc.*, 315 F.3d 1304, 1308 (Fed. Cir. 2003).)

Patent Licenses *cont'd*

- Conversely, a patent owner who has granted an exclusive license with all substantial rights, no longer has standing to join in a patent infringement action

Patent Licenses *cont'd*

- Importance of the Parties' Intentions
  - *Vaupel Textilmaschinen v. Meccanica Euro Italia*, 944 F.2d. 870 (Fed. Cir. 1991); *Prima Tek II, L.L.C. v. A-Roo Co.*, 222 F.3d 1372, 1378 (Fed. Cir. 2000).

Patent Licenses *cont'd*

- Rights Considered
  - Exclusive Right to Bring Infringement Action
    - The rationale is that an alleged infringer should not have to face infringement actions from multiple plaintiffs. *Crown Die & Tool Co. v. Nye Tool & Machine Works*, 261 U.S. 24, 38, 43 S. Ct. 254, 257, 67 L.Ed. 516 (1923).

Patent Licenses *cont'd*

- Rights Considered *cont'd*
  - Exclusive Right to Bring Infringement Action
    - "The agreements also transferred the right to sue for infringement of the '650 patent, subject only to the obligation to inform [the licensor]. This grant is particularly dispositive here because the ultimate question confronting us is whether [the licensee] can bring suit on its own or whether [the licensor] must be joined as a party. The policy underlying the requirement to join the owner when an exclusive licensee brings suit is to prevent the possibility of two suits on the same patent against a single infringer [citations omitted]. This policy is not undercut here because the right to sue rested solely with [the licensee]." *Vaupel Textilmaschinen v. Meccanica Euro Italia*, 944 F.2d. 870, 875, 876 (Fed. Cir. 1991)

Patent Licenses *cont'd*

- Rights Considered *cont'd*
  - Right to Practice the Invention
    - Effect of Non-Exclusive Licenses
      - Right to Grant Future Non-Exclusive Licenses
        - » "A licensee's right to sub-license is an important consideration in evaluating whether a license agreement transfers all substantial rights." *Prima Tek II, L.L.C. v. A-Roo Co.*, 222 F.3d 1372, 1380 (Fed. Cir. 2000).

Patent Licenses *cont'd*

- Rights Considered *cont'd*
  - Right to Practice the Invention
    - Effect of Non-Exclusive Licenses
      - Right to Grant Future Non-Exclusive Licenses
        - » "To qualify as an exclusive licensee, an agreement must clearly manifest the patentee's promise to refrain from granting to anyone else a license in the area of exclusivity." *Textile Productions, Inc. v. Mead Corporation*, 134 F.3d 1481, 1484 (Fed. Cir. 1998)

Patent Licenses *cont'd*

- Rights Considered *cont'd*
  - Effect of Non-Exclusive Licenses
    - Right to Practice the Invention
      - Existence of Past Non-Exclusive Licenses
        - » "In fact, courts have held that an exclusive licensee's rights to exclusivity are not substantially altered where the patent owner had granted other entities non-exclusive licenses to the patent and the exclusive licensee's rights are conditioned on these entities exercising the rights granted to them previously." *Ciba-Geigy Corp. v. Alza Corp.*, 804 F.supp 614 (D.N.J. 1992) (relying on *Waterman v. Mckenzie*, 138 U.S. 252, (1891))

Patent Licenses *cont'd*

- Rights Considered *cont'd*
  - Effect of Non-Exclusive Licenses
    - Existence of Past Non-Exclusive Licenses
      - In *Waterman v. Mackenzie*, the inventor of fountain pens bearing that name assigned a pen-holder patent to his wife who in turn granted back a "mere" license. The wife later assigned the patent, subject to the grant-back, to a lender. In determining who had the right to sue Mackenzie, the court found that it was the lender's successor in title, who took subject to Mr. Waterman's prior non-exclusive license.

Patent Licenses *cont'd*

- Rights Considered *cont'd*
  - Scope of License
    - Geographic Territory
    - Field of Use
    - Time
    - Enterprise*

Patent Licenses *cont'd*

- An exclusive licensee that does not have all substantial rights in a patent can cure standing by joining the patent owner. *Fieldturf, Inc. v. Southwest Recreational Industries*, 357 F.3d 1266, 1269 (Fed. Cir. 2004)

Patent Licenses *cont'd*

- Furthermore, an exclusive licensee lacking all substantial rights may still have standing to bring suit in its name alone "when necessary to prevent an absolute failure of justice." *Textile Productions, Inc. v. Mead Corp.*, 134 F.3d 1481, 1484 (Fed. Cir. 1998)

Trademark Ownership

- General Rule:
  - Legal entity which is in fact using the mark as a symbol of origin

Trademark Ownership *cont'd*

- Related entities
  - 15 U.S.C. § 1055
    - Where a registered mark or a mark sought to be registered is or may be used legitimately by related companies, such use shall inure to the benefit of the registrant or applicant for registration, and such use shall not affect the validity of such mark or of its registration, provided such mark is not used in such manner as to deceive the public.

Trademark Ownership *cont'd*

- Related entities *cont'd*
  - 15 U.S.C. § 1055
    - If first use of a mark by a person is controlled by the registrant or applicant for registration of the mark with respect to the nature and quality of the goods or services, such first use shall inure to the benefit of the registrant or applicant, as the case may be.

Trademark Assignments

- A mark cannot be assigned apart from the good-will of the business.

- Assignment must be in writing.

Trademark Licenses

- Old Law
  - Was based on theory that a trademark indicated a physical source of the goods or services. Therefore, a trademark license could not be given absent complete transfer of the business.

Trademark Licenses *cont'd*

- New Law
  - Is based on theory that trademark does not always necessarily indicate physical source, but also can simply indicate quality; consumer assumes products sold under same mark will be of equal quality regardless of the actual physical source of the goods. *Siegel v. Chicken Delight, Inc.,* 448 F.2d 43 (9th Cir. 1971).

Trademark Licenses *cont'd*

- New Law *cont'd*
  - Quality theory permits trademark owner to license the mark absent complete transfer of the business and allows licensees to buy supplies from anyone, provided licensor maintains quality control over products reaching consumers under the mark.

Trademark Licenses *cont'd*

- New Law *cont'd*
  - "Naked License" results when licensor takes no reasonable steps to control quality; such a license is invalid.

Copyright Ownership

- Presumptive Owner: the individual inventor(s)
  - 15 U.S.C. § 201(a)
    - Copyright in a work protected under this title vest initially in the author or authors of the work.
- State law governs contract obligations and transfers of property rights

Copyright Ownership *cont'd*

- In the case of a joint work, each author automatically acquires an undivided ownership in the entire patent
  - 15 U.S.C. § 201(a)
    - The authors of a joint word are coowners of copyright in the work.

Copyright Ownership *cont'd*

- Disputes in ownership between an employer and an employee
  - Authorship will determine ownership, unless the employee is under some duty to assign the copyright to the employer

Copyright Ownership *cont'd*

- Work made for hire
  - 15 U.S.C. 201(b)
    - In the case of a work made for hire, the employer or other person for whom he work was prepared is consider the author for purposes of this title . . .

Copyright Ownership *cont'd*

- Work made for hire -- definition
  - 15 U.S.C. § 101
    - (1) a work prepared by an employee within the scope of his or her employments; or

Copyright Ownership *cont'd*

- Work made for hire – definition *cont'd*
  - 15 U.S.C. § 101
    - (2) a work specially ordered or commissioned for use
      - As a contribution to a collective work;
      - As part of a motion picture or other audiovisual work;
      - As a translation;
      - As a supplementary work;
      - As a compilation;
      - As an instructional text;
      - As a test;
      - As answer material for a test; or
      - As an atlas
      - If the parties expressly agree in a written instrument signed by them [before the work is created].

Copyright Assignments

- 17 U.S.C. § 201(d)(2)
  - The ownership of a copyright may be transferred in whole or in part by any means of conveyance or by operation of law . . .

Copyright Assignments *cont'd*

- Failure to Timely Record
  - 15 U.S.C. 205(d)
    - As between two conflicting transfers, the one executed first prevails if it is recorded . . . Within one month after its execution in the United States, or at any time before recordation . . . of the later transfer.

Copyright Licenses

- 17 U.S.C. § 201(d)(2)
  - Any of the exclusive rights comprised in a copyright, including any subdivision of any of the rights specified by section 106, may be transferred a provided by clause (1) and owned separately. The owner of any particular exclusive right is entitled, to the extent of that right, to all of the protection and remedies accorded to the copyright owner by this title.

Copyright Licenses *cont'd*

- Significance of distinction between author and assignee/licensee
  - Assigning author has the right to recapture certain works after thirty five years. (15 U.S.C. § 204)